December 23, 2015 – Past and Future

Explaining the Past and the Future

The first demand we must all make when considering whether an explanation or a prediction for what may unfold in the future is plausible or not, is whether that same explanation is consistent and in conformity with what occurred in the past. In other words, if someone gives you a price target on gold or silver based on a premise that bears no connection with past price history, skepticism would be in order. The future is always unknown, but the past is there for all to see.

Therefore, if a premise of the future is not compatible with the past, such a premise would be lacking in substance. In the case of gold and silver, any plausible prediction for what lies ahead must also explain what occurred over the past four and a half years, in which gold and silver prices fell 40% and 70%, respectively, from the price highs set in 2011. Not for a minute am I suggesting that the complete price history of gold and silver dates from 2011; but since the period of time since did represent about the worst price decline ever, it cries out for a full explanation. After all, in many ways the epic decline seemed most unusual given all the circumstances.

For one thing, over the past 4.5 years, the world's central banks have embarked on unprecedented monetary easing, resulting in the lowest interest rates in history; in some cases actually below zero. As a result, world stock, bond, real estate, art and collectible markets have, basically, surged to all-time highs as investors sought alternatives to the low interest rates. One would think the universal lack of return on deposits would have been a wind at the back of gold and silver, just as it was on all other investment asset classes. That gold and silver prices were pummeled during this time is a fact that must be addressed in any plausible price prediction from here.

True, many commodities have declined precipitously over the past 4 to 5 years, but gold and silver are very different than other commodities due to their investment demand profile (silver has a dual investment/industrial demand profile). Besides, the biggest commodity of all, crude oil, declined only after OPEC decided against curtailing production a year ago and not for the past 5 years. In gold, persistent reports of strong demand from the East are in stark contrast with the dismal price performance and since when does strong demand result in lower prices? In silver, not only are there no signs of physical oversupply, most of the verifiable statistics point to wholesale physical tightness. No one can point to any credible indications of physical gold or silver oversupply (away from the price).

Some would point to the strong dollar as negatively impacting gold and silver prices, but the dollar only rallied starting in the fall of 2014, by which time gold was already trading below $1200 and silver below $20. A quick glance at the charts will point this out. Therefore, I am unconvinced by and skeptical of most of the popular explanations behind the historic price drop in gold and silver over the past 4.5 years, particularly when used to predict future prices.

The only plausible explanation that I have been able to uncover that explains the dismal price performance in gold and silver over the past 4.5 years is the same one I write about constantly Â? price manipulation on the COMEX. Since this is a consistent theme, I'll spare you all the details today, but please allow me to sum them up.

Futures positioning between the managed money technical fund traders and the commercials are the sole cause behind the price drop and all price movement. So powerful has been the COMEX price influence that it has overwhelmed the upward price effect in gold that the truly historic physical flow of metal from West to East should have had on price. In silver, the price suppression via the COMEX has obliterated the upward price effect that JPMorgan should have had in acquiring more than 400 million ounces of physical metal over this time. That acquisition stands as the most skillful and brilliant accumulation of actual metal in history. Too bad it was also the most manipulative and illegal accumulation as well.

Of course, the entire COMEX positioning premise is laid out in the Commitments of Traders (COT) Report, the weekly statistical data series published by the CFTC. This is the undeniable source that backs the manipulation premise, namely, that a small group of large speculators, excluding any real producers and consumers, is setting prices via private betting arrangements. So powerful and compelling is the evidence that changes in COMEX futures positioning determines gold and silver prices that I continue to be amazed by the growing numbers of commentators which have started to point to the COT report in their analyses. Â?AmazedÂ? is perhaps not the right word, in that the growing attention to the COT data series is well deserved and highly appropriate.

However, today I was thunderstruck in reading of what I would interpret as yet another new COT convert to the fold. The reason I was thunderstruck is that I don't recall this commentator ever referencing the COT report previously and because he has been such a staunch manipulation denier. Please understand that this is not intended, in the least, to inflame past personal disagreements with the commentator, but to make a broader point. And please know that I have no opinion on anything else included in the commentary, particularly specific company references, aside from the one paragraph mention of the COTs.

http://www.321gold.com/editorials/moriarty/moriarty122315.html

The reason I was so thunderstruck (and encouraged) was because this reference to the COT report is the basic proof of the manipulation itself. I'm 100% sure that the commentary did not intend to come out and openly endorse the manipulation premise. Yet that is exactly what I see. The only way one could interpret the COT report as being currently structured as bullish (which it is, in spades), is if one thought the commercials were in position to put it to the technical funds which are short to historical extremes. If one thought otherwise, namely, that the commercials were about to get creamed to the downside by the technical funds, one would not hold that out as a bullish argument.

My point is that if anyone objectively dissects and comprehends the data in the COT report, it is only a short time before the scope of the price manipulation comes into clear view. Admittedly, the data in the report is confusing upon first (and second and two-hundredth) review and does take a long time to fully grasp. It took me many, many years. But once you do grasp it, the distance to understanding that it all adds up to manipulation is much shorter. That's why I'm so encouraged Â? the growing recognition of the validity of the COT Report must lead to a conviction that this proves the gold and silver manipulation. (I don't think anyone wants to defend the right of COMEX speculators to exclude real producers and consumers and set prices unilaterally).

So the past four and a half years' of gold and silver pricing is fully explained by COMEX positioning as documented in the COT reports and that is my firm and full conviction. I have looked for alternative explanations but have come up blank. Nothing explains past price action like COMEX positioning and that is fully reflected in the growing tide of converts to the premise. But, as important as understanding what has transpired already may be, the greatest significance to the COMEX positioning premise is what it portends for future prices.

As long time readers know, I am reluctant to predict future prices on a short term basis, mainly because I fear that might detract from or upset long term investment perspectives. That said, I'm not a complete stranger to short term price predictions, including price projections to the downside. The other day, in glancing at price charts covering the past few months, I observed to myself that the gold and silver price rally into mid-October had proved to be, in hindsight, a good point to lighten up temporarily, considering that prices did fall from then. I then said to myself that I hoped that I saw the subsequent decline coming and commented appropriately and went back and reviewed what I wrote at the time (not something I usually do).

After reviewing articles around that time (Oct 17 and Nov 4, for example), I did satisfy my curiosity that I was in tune with what was coming and had expected gold and silver prices would move below $1080 and $14, respectively, by some small amount. I also remember writing how it felt crazy to write bearishly of silver at $16, but when JPMorgan and the commercials were loaded up on the short side, the price was likely to move lower for that reason alone. I bring this up, not to toot my own short term price prediction horn, but as a preface for what I'm about to predict. The fact is that short term price predictions to the downside when JPM and the COMEX commercials are loaded for bear is fairly straightforward. It has been the upward price predictions that have proved so tricky.

It's not the timing of short term rallies that is so difficult, once one acknowledges that the COT analysis is not particularly time-sensitive. The timing factor for both short term rallies and price declines is essentially the same. What differentiates rallies from sell-offs is the extent of each. Since it's increasingly obvious that the commercials lead the technical funds in and out of positions by the (price) nose and because we know gold and silver prices can't go to zero (or some much lower level than where they are currently), downside price targets are easier to get right.

The real trick is in guessing the extent of price rallies. Let's face it Â? we are due for a price rally in gold and silver. That is virtually certain. We may still experience sudden price stabs to the downside, but the only way the current positioning extremes on the COMEX will get resolved (as must occur) is on a rally over most or all of the moving averages. This is the tidal force of price change. And this is what every new article on the COT report concludes. I've yet to read a COT analysis that concludes that the current setup in COMEX gold and silver is bearish.

The only question is the extent of the coming rally in gold and silver, not the timing (it should be soon) or whether it will occur. And as has always been the case, the extent of the coming certain rally will be determined by how aggressive the commercials will be in selling to the certain massive and aggressive technical fund buying ahead. Make no mistake, the coming rally is certain because the coming managed money technical fund buying makes it certain. The extent of the rally, on the other hand, is completely dependent on how aggressive the COMEX commercials, led by JPMorgan and other large commercial shorts, are in selling into the technical fund buying ahead. To be as specific as possible, I distill it down to whether JPMorgan and the other large COMEX commercial shorts add to existing short positions.

The only variable in the coming certain gold and silver rally is the extent of the rally and that is dependent on whether JPMorgan and other big COMEX commercials add to short positions. I haven't observed any of the growing chorus of COT commentary mention this one factor yet, but give it time as it is the key to the coming rally. Since I believe this is most important factor in the coming rally, particularly in silver, I want to be as clear as possible.

The whole issue is very much black and white. If JPMorgan and the other big COMEX commercials add notably and measurably to existing silver short positions, the coming rally will most likely be of the type of the increasingly disappointing rallies of the past two years – $1 to $2 or so ($100+ in gold). I suppose such a rally will be greeted in some circles as an achievement of some note; but you'll forgive me if I don't high-five in advance. Moreover, if the next rally does involve heavy new short selling by JPMorgan and other big commercial shorts, most likely it won't be long before we must confront the next manipulative selloff.

But if JPMorgan doesn't add aggressively to short positions in COMEX silver on the coming certain price rally, then that rally will likely be one for the ages. Every manipulation needs a manipulator-in-charge to maintain the fraudulent price scheme and every manipulation in history ends when the chief manipulator pulls back from rigging prices. Therefore, should JPMorgan and other big COMEX commercials refrain from adding new short positions on the coming rally, the extent of the price rally will shock many. Just to throw out numbers, if JPMorgan doesn't squash the next rally like it has squashed every silver rally over the past seven years, we could be over $20 or $30 in a relative flash and onward and upward to much higher silver prices.

Admittedly, JPMorgan has added to its short position on every silver rally over the past seven years, so why would I expect it not to do so once again? A good number of things have changed over the past seven years, not the least of which has been the success of the bank in accumulating a truly massive amount of actual silver over the past 4 years, some 400 million oz. Therefore, JPMorgan has never been in a better position to let silver prices explode than currently. And even if it is short a relatively small 12,000 to 13,000 contracts now, that's a 60 to 65 million oz paper short position against a 400 million oz physical long position meaning a net long position of 340 million oz.

Another thing that has changed is not only the growing recognition of the control that COMEX positioning has on gold and silver prices, but the role that JPMorgan plays in that positioning. This suggests to me that JPMorgan will act before the universal finger of blame is pointed at it for manipulating silver prices. And what better time to quit manipulating silver prices than now?

I know that silver investors have been mentally beaten down by the manipulative price process of the past 4.5 years to the point of mostly considering the possibility of a quick doubling in price to be almost unthinkable. But the current market structure suggests that possibility not only exists, but can be calculated on an almost 50-50 basis. It all depends on what JPMorgan does or doesn't do in terms of adding new silver shorts. If the bank does nothing and does not add to short positions, silver will fly. That's not a prediction, just a statement about the only price equation that matters.

On a housekeeping note, I'll have a weekly review (probably brief) on Saturday and a report on Monday when the new COT report is published. Merry Christmas and the best of the season to you and yours.

Ted Butler

December 23, 2015

Silver – $14.30 (50 day moving average – $14.71)

Gold – $1069 (50 day moving average – $1102)

Date Created
2015/12/23